

Update and inform...



By Mark Penston BSc, Dip PFS, MEWI

Our occasional update for matrimonial lawyers endeavours to briefly remind and update those involved in the financial aspects of the division of assets on divorce.

At last – Bespoke protection for maintenance payments!

In my last *Matrimonial Matters* I commented that the protection of maintenance payments made good financial sense through the use of life and critical illness policies; it obviously makes sense to insure an income stream – particularly if you have little control over its continuity.

However, the death or serious illness of the maintenance payer are only two reasons why maintenance payments might stop.

In response to a growing need to protect maintenance payments we are delighted to announce the availability of bespoke maintenance protection that will protect non payment of maintenance by the payer due to their:-

- Accident or sickness
- Death
- Redundancy

Also covered is:-

- Debt recovery and legal costs to enforce maintenance agreements

As a rough indication of cost, maintenance protection of £2,000 per month will cost in the region of £80 per month for a 12 month period of insurance or £130 per month for a 24 month period of insurance.

As with all policies of this nature there is the small print, but our analysis of this plan is that not only is it the first of its type, but that its terms and conditions are fair and reasonable.

In our opinion this cover should be offered in all instances where an individual will rely on maintenance payments.

“What if my maintenance payments stop?”

You now have the answer....

RPI to CPI Changes and delays to transfer values... Again!

Many of you will remember the changes brought about by the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

This new basis applied from 1st October 2008 and caused changes to and delays in the production of CETV figures.

Well it's happening again with the proposal to change pension indexation from RPI to CPI.

What is the change?

The Emergency Budget of 22 June 2010 announced that the indexation of the majority of State benefits, State Second Pensions and Public sector pensions would be changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) with effect from April 2011. This change is expected to apply to both accrued and future service of public service pensions.

RPI vs CPI?

The difference between CPI and RPI is that CPI tends to be lower than RPI both because it excludes most housing costs. It is also calculated differently such that even if baskets of goods were the same, CPI would be lower than the RPI. Historically this difference has been about 0.8% p.a. although many suspect that it will be greater in the future.

What is the effect of the change?

Cumulatively these differences will reduce the pension paid to public service pension scheme members throughout retirement. It will also affect other pension schemes whose Trust rules allow them to adopt CPI rather than RPI. Of relevance to Matrimonial Lawyers and their clients is that those pension schemes that adopt CPI will now produce lower CETV valuations as the cost of providing pensions with lower indexation is less. It is estimated that the changes will save the Government £6 billion per annum. Other schemes that adopt CPI are estimated to save at least 10% of their costs; a welcomed saving given the state of many defined benefit pension schemes.

Why are there delays?

The proposals have created many questions from the industry about how, and to what the changes should apply. Until matters are clarified, many administrators of pension schemes are not producing valuation statements and when matters are clarified, I suspect that further delays will be encountered while systems are changed and checked.

Is there anything you can do?

Despite legislation dictating the time scale in which pension valuations must be produced, many schemes are seeing this proposal as a legitimate reason to defer the production of valuations.

- Getting a valuation as soon as possible may help, but beware that this valuation may change when revalued during the Implementation Period.
• Check scheme rules to see if the scheme is able to change to CPI (your IFA should be able to do this).
• If time is of the essence actuarial assistance can estimate the differences in CETV's if CPI is adopted.
• Note that this does not apply to most money purchase schemes (defined contribution)
• Frustrating as it may be, pension sharing reports that have assumed RPI indexation may now be inaccurate.

Summary

Beware of the fact that many CETV's will now reduce where RPI is replaced by CPI.

You may experience delays in getting CETV's.

Existing CETV statements and pension sharing reports may now be inaccurate.

WORKSHOPS TO YOU

We continue to produce briefing update workshops to matrimonial departments for those that wish to keep abreast with financial aspects of divorce.

The sessions generally last approximately 1 hour, and are currently without charge. The aim of these workshops is to refresh knowledge of the basics of pension and financial products and to provide details of relevant updates and development. Where possible case studies are used to illustrate points and provide discussion matter.

Please contact our offices if you would like to discuss arranging a "Workshops to You" session.

Please note that in order to convey points as succinctly as possible a significant amount of detail has been omitted from this update. As such none of this article should be construed as financial advice.

Services from Bluesky

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